H & R Johnson Tiles Ltd & Anor v H & R Johnson (M) Bhd

HIGH COURT (KUALA LUMPUR) — CIVIL SUIT NO D5-22-1505 OF 1992
HAIDAR J
11 DECEMBER 1997

Contract *— Novation — Existence of — Whether novation of agreement gave third party right to sue under the agreement*

Contract *— Breach — Agreement for exclusive manufacturing rights under certain trade marks — Agreement expired — Control of manufacturing process shifted to defendants — Claim that product had been localized — Whether continued use of trade marks after termination of agreement would constitute breach*

Trade Marks *— Passing off — Elements of — Whether there was passing off*

The plaintiffs were companies formed in the United Kingdom involved in the ceramic tile business under the trade mark 'H & R Johnson'. The defendant, a locally incorporated company, had entered into a technical aid agreement ('TAA') with the second plaintiff — for the exclusive manufacturing rights of ceramic tiles under the trade marks 'H & R Johnson' or 'Johnson' ('the trade marks') in Malaysia — under the technical know-how and patents of the second plaintiff. The TAA then expired. The plaintiffs subsequently disputed the defendant's claims of rights to sell their tiles under the trade marks. The plaintiffs claimed against the defendant for passing off, and further alleged that defendant had breached the plaintiffs' contractual rights arising under the TAA. Several other matters at issue were, ie whether: (i) the bundle of documents put in by both parties are admissible especially in regard to the contents thereof; and (ii) there was novation of the TAA in favour of the first plaintiff.

Held, allowing the plaintiffs' claims:

(1) The contents of the documents in the bundle of documents formed part of the evidence before the court. It was a matter entirely for the party having agreed to the document to rebut or reduce the evidential or probative effect of the contents of the document by other evidence (see p 20B–C).

(2) There was overwhelming evidence that there was novation by the conduct of the defendant. Moreover, it was too late in the day for the defendant to take issue on no novation having taken place (see p 26G).

(3) Three elements are required for passing off, ie: (i) goodwill or reputation; (ii) misrepresentation; and (iii) damages (see pp 29I and 30A); *Reckitt & Colman Products v Borden Inc* [1990] RPC 341, [1990] 1 All ER 873 followed. In this case, the plaintiffs had shown through overwhelming evidence that the goodwill in

the trade marks vested in them and not the defendant. There was also misrepresentation as both the plaintiffs and the defendant were using the same or identical names and trade marks in relation to identical goods (see pp 36G–H and 37D); *Seet Chuan Seng & Anor v Tee Yih Jia Foods Manufacturing Pte Ltd* [1994] 2 MLJ 198 followed. In the circumstances, it followed thus that damages would naturally ensue (see p 37G–H).

(4) The continued use of the trade marks by the defendant on its tiles after the termination of the TAA would constitute a breach of the TAA so long as the defendant held out as representing or being associated with the plaintiffs' goodwill in respect of those tiles. It matters not that the balance of control shifts to the defendant or that it has become totally Malaysianised (see p 41C).

[Bahasa Malaysia summary

Plaintif-plaintif adalah syarikat yang ditubuhkan di United Kingdom yang terlibat dalam perniagaan jubin seramik di bawah tanda niaga 'H & R Johnson'. Defendan, sebuah syarikat yang diperbadankan secara tempatan, telah mengikat suatu perjanjian bantuan teknikal ('PBT') dengan plaintif kedua — untuk hak-hak eksklusif mengilang jubin-jubin seramik di bawah tanda niaga 'H & R Johnson' atau 'Johnson' ('tanda niaga tersebut') di Malaysia — di bawah kepandaian teknik dan paten plaintif kedua. PBT kemudiannya telah tamat tempohnya. Plaintif-plaintif kemudiannya mempertikaikan tuntutan defendan ke atas hak untuk menjual jubin-jubin mereka di bawah tanda niaga tersebut. Plaintif-plaintif telah menuntut terhadap defendan atas kelirupaan, dan seterusnya mengatakan bahawa defendan telah melanggar hak-hak kontraktual yang timbul di bawah PBT. Pelbagai perkara juga menjadi isu, iaitu sama ada: (i) ikatan dokumen yang dimasukkan oleh kedua-dua pihak boleh diterima terutamanya berhubung dengan kandungannya; dan (ii) terdapat novasi PBT yang memihak kepada plaintif pertama.

Diputuskan, membenarkan tuntutan plaintif-plaintif:

(1) Kandungan dokumen dalam ikatan dokumen membentuk sebahagian daripada keterangan di hadapan mahkamah. Ia merupakan suatu perkara yang keseluruhannya untuk pihak yang telah bersetuju kepada dokumen untuk mematahkan atau mengurangkan kesan keterangan atau probatif kandungan dokumen dengan mana-mana keterangan yang lain (lihat ms 20B–C).

(2) Terdapat keterangan yang amat sangat bahawa terdapat novasi melalui kelakuan defendan. Tambahan pula, adalah terlalu lambat untuk defendan menghujahkan tiada novasi telah berlaku (lihat ms 26G).

(3) Tiga elemen dikehendaki untuk kelirupaan, iaitu: (i) nama baik atau reputasi; (ii) salah nyata; dan (iii) ganti rugi (lihat ms 29I

dan 30A); *Reckitt & Colman Products v Borden Inc* [1990] RPC 341; [1990] 1 All ER 873 diikut. Dalam kes ini, plaintif-plaintif telah menunjukkan menerusi keterangan yang amat sangat bahawa nama baik dalam tanda niaganya terletakhak dalam mereka dan bukannya defendan. Terdapat juga salah nyata kerana kedua-dua plaintif dan defendan menggunakan nama dan tanda niaga yang sama atau serupa berhubung dengan barangan yang serupa (lihat ms 36G–H dan 37D); *Seet Chuan Seng & Anor v Tee Yih Jia Foods Manufacturing Pte Ltd* [1994] 2 MLJ 198 diikut. Dalam keadaan demikian, ini bermakna bahawa ganti rugi akan semestinya bangkit (lihat ms 37G–H).

(4) Penggunaan berterusan tanda niaga tersebut oleh defendan pada jubinnya selepas penamatan PBT merupakan pelanggaran PBT selagi defendan menggelar diri sebagai mewakili atau bersekutu dengan nama baik plaintif-plaintif berhubung dengan jubin-jubin itu. Ia tidak penting bahawa imbangan kawalan telah beralih kepada defendan atau ia telah menjadi buatan Malaysia pada keseluruhannya (lihat ms 41C).]

Notes

For cases on breach of contract, see 3 *Mallal's Digest* (4th Ed, 1997 Reissue) paras 1611–1693.

For cases on novation, see 3 *Mallal's Digest* (4th Ed, 1997 Reissue) paras 2631–2638.

For cases on elements of passing off, see 12 *Mallal's Digest* (4th Ed, 1996 Reissue) paras 1219–1223.

Cases referred to

Anderson & Lambke v Anderson & Lembke Inc [1989] RPC 124 (refd)
Adrema Ltd v Adrema-Werke GmbH [1958] RPC 323 (refd)
Aktiebolaget Manus v RJ Fullwood and Bland (1949) 66 RPC 71; [1949] 1 All ER 205 (refd)
Bostitch Trade Mark [1963] RPC 183 (refd)
Bowden Wire Ltd v Bowden Brake Co Ltd (1914) 31 RPC 385 (refd)
Commissioners of Inland Revenue v Muller & Co's Margarine Ltd [1901] AC 217 (refd)
Ewen Warwick v Townsend [1980] RPC 31 (refd)
Ewing v Buttercup Margarine Co Ltd (1917) 34 RPC 232 (refd)
Goh Ya Tian v Tan Soon Gou & Ors [1981] 2 MLJ 317 (refd)
Habib Bank Ltd v Habib Bank AG Zurich [1982] RPC 1 (refd)
Jaeger v Jaeger Co Ltd (1927) 44 RPC 437 (refd)
JH Coles Proprietary Ltd (in liquidation) v Need (1933) 49 CLR 499; [1934] AC 82 (refd)
Malaysian International Merchant Bankers Bhd v Datuk Mohd Salleh & Anor [1988] 2 CLJ 90 (refd)
Reckitt & Colman Products v Borden Inc [1990] RPC 341; [1990] 1 All ER 873 (folld)

Seet Chuan Seng & Anor v Tee Yih Jia Foods Manufacturing Pte Ltd [1994] 2 MLJ 198 (folld)
Sturtevant Engineering Co Ltd v Sturtevant Mill Co of USA Ltd (1936) 53 RPC 430 (refd)
T Oertli A G v E J Bowman (London) Ltd [1959] RPC 1 (refd)
Yap Choo Hoo v Tahir bin Yasin & Anor [1970] 2 MLJ 138 (refd)

Legislation referred to

Civil Law Act 1956 s 3(4)
Contracts Act 1950 s 63
Rules of the High Court 1980 O 15 r 6(2)(a)
Trade Marks Act 1976 s 38

VL Kandan (*Linda Wang* with him) (*Shearn Delamore & Co*) for the plaintiffs.
Ambiga Sreenevasan (*Lim Chee Wee* and *John Chong* with her) (*Skrine & Co*) for the defendant.

Haidar J: In this action, the claim of H & R Johnson Tiles Ltd ('the first plaintiff') and Norcros Industry (International) Ltd ('the second plaintiff') against H & R Johnson (M) Bhd (formerly known as 'H & R Johnson (M) Sdn Bhd') ('the defendant') is centred on two main causes of action, namely:

(1) passing off;
(2) the plaintiffs' contractual rights arising under the technical aid agreement dated 15 December 1976 ('TAA') or alternatively, an implied agreement upon the terms of the TAA between the first plaintiff and the defendant.

The dispute revolves over the rights to use the names H & R Johnson and Johnson ('the trade marks') and the 'Tile-on-Tile' Logo ('the logo') in relation to ceramic tiles in Malaysia.

For the record, the witnesses for both parties gave their evidence-in-chief by way of written statements. PW1 and PW2 gave evidence in England by virtue of an order issued by the court here. In proceedings before me, it was again agreed by the parties that the evidence be recorded by computerised transcription system through the personnel of a company from Hong Kong. This system helped to expedite the proceedings.

Before the start of the proceedings, both counsels agreed to put in agreed bundle of documents. However, it was not initially clear as to whether the agreed documents would include agreement as to the contents of the documents as well. Dato Kandan, counsel for the plaintiffs, intimated that the documents are agreed but subject to proof, that is, they have to be referred for them to go in. Miss Ambiga, counsel for the defendant, seemed to agree as she indicated that the contents are not admitted (see p 3 of the first day's proceedings).

The following documents were marked accordingly:

(1) plaintiffs' bundle of documents — PB1 to 10.

(2) defendant's bundle of documents — DB(A) to (I) (11 bundles).

(3) bundle of pleadings — BP.

(4) plaintiffs' opening address — POA.

At the close of the proceedings, counsels for both parties seemed to disagree as to the admissibility of the bundle of documents vis-a-vis their contents. I will consider and give a ruling on this issue later in my judgment.

BACKGROUND

The defendant was incorporated in 1976 as a result of a joint venture between the second plaintiff, Dunlop Malaysia Industries Bhd ('Dunlop'), Lembaga Tabung Angkatan Tentera ('LTAT') and Koperasi Polis DiRaja (M) Bhd ('KPDMB'). The purpose of the joint venture it seemed was to further exploit the trade marks H & R Johnson and Johnson names, goodwill and reputation attaching thereto by manufacturing tiles locally using technology and know-how developed by the plaintiffs over the past 150 years.

A copy of the joint venture agreement dated 29 December 1976 is at pp 12–26 of DBA ('JVA'). According to the JVA, the shareholding of the defendant at the material time made up of:

(i)	Dunlop	34%
(ii)	Johnson (second plaintiff)	15%
(iii)	LTAT	30%
(iv)	KPDMB	21%
		100%

Under cl 7(a) of the JVA, the defendant shall enter into an agreement with the second plaintiff for the exclusive manufacturing rights in Malaysia under the technical know-how and patents (if any) of the second plaintiff and for selling rights within and outside Malaysia in terms of the draft annexed thereto and marked 'A'.

The agreement referred to in the JVA is the technical aid agreement dated 15 December 1976 ('TAA') and a copy is set out at pp 1–11 of DBA (pp 163–173 of Vol I of PB).

These two documents are not disputed and the various clauses therein will be referred to as and when they are relevant in considering the issues before the court.

In 1991, the second plaintiff divested itself of that 15% equity interest it held in the defendant following a change in the management structure of the defendant. However, the plaintiffs claimed that they continued to cooperate with the defendant and regarded and treated the defendant as a member of the worldwide H & R Johnson Group.

The TAA expired on 30 September 1992. There were negotiations between the parties for its renewal. However, at around the time a significant event occurred. According to the plaintiffs, they became aware for the first time that the defendant had issued a prospectus dated 28 September 1992, in connection with its proposed floatation on the Kuala Lumpur Stock Exchange (see pp 1540–1580 of PB5). The plaintiffs asserted that the defendant had been planning the prospectus and the floatation for some months. The plaintiffs contended that in spite of the close cooperation with the defendant and the degree of exchange of information, they were rather surprised that the defendant did not at least inform them of its intentions but left the plaintiffs to find out by secondary means.

The prospectus caused great concern to the plaintiffs as in it, the defendant claimed to be owners of the trade marks. Furthermore, the prospectus emphasised the export potential of the defendant's business. Hence, it could be assumed that that was intended to imply ownership claims to the trade marks outside Malaysia as well.

The plaintiffs considered the claims made in the prospectus as misleading and objected as being wholly inconsistent with their ownership rights to the trade marks. Accordingly, the plaintiffs wrote to both the sponsoring bank and the Kuala Lumpur Stock Exchange, drawing their attention to the fact that the defendant's claims of rights to sell their tiles under the trade marks of H & R Johnson or Johnson names was disputed. This led to the commencement of proceedings by the defendant against the plaintiffs under Civil Suit No D4–22–1494–92 ('the D4 action'). The defendant obtained an interlocutory injunction requiring the plaintiffs to withdraw the statements which they made. The D4 action is still pending. In order to assert their proprietary rights to the trade marks and the H & R Johnson and Johnson names and their exclusive entitlement to use thereof, the plaintiffs then filed this action on 12 November 1992.

So much of the brief background.

ISSUE ON BUNDLE OF DOCUMENTS

Before proceeding to consider the evidence, it would be more appropriate for me to deal with the issue of the bundle of documents put in by both parties wherein at the close of the proceedings, both counsels seemed to dispute as to what documents in the bundle of documents of both parties are admissible especially in regard to the contents thereof. I fully appreciate the difficulties that may ensue if all the persons involved in the voluminous documents that are put in the bundle of documents are required to attend court. It will naturally prolonged the proceedings not taking into account that some of those involved may be unavailable say, on ground of death etc.

Ideally, in my view, the bundle of documents should have been put into two categories, namely, one where the documents and the contents are agreed and the other where the documents are agreed but the contents are disputed.

Be that as it may, the judgment of Sharma J in *Yap Choo Hoo v Tahir bin Yasin & Anor* [1970] 2 MLJ 138 was considered by the learned judge in the Singapore case of *Goh Ya Tian v Tan Soon Gou & Ors* [1981] 2 MLJ 317 wherein the learned judge said at p 319:

> ... It is all left to agreement of the parties. A party wishing to cross-examine the maker of a document should not agree to its inclusion in the agreed bundle or should where convenience dictates at least extract a written undertaking from the other side that the maker would be produced at the trial for cross-examination. This is not to say that the party cannot cross-examine the maker of an agreed document if the maker chooses to give evidence nor that the party in agreeing to the inclusion of a document agrees with what the document purports to say or its evidential value. The party having agreed to the document is perfectly entitled to rebut or reduce the evidential or probative effect of the contents of the document by other evidence. *What is clear is that the documents in the agreed bundle are admitted into evidence by consent without production of the maker or the originals and the contents do form part of the evidence before the court.*

It is also not as though Sharma J was not aware of what the Federal Court had decided earlier on this matter in *Henry Trading Co Ltd v Harun* [1966] 2 MLJ 281. It was there said by Wan Suleiman J at p 282:

> '... The other statement of law made by the learned trial judge on which I feel I should comment is that part of the judgment wherein he said that the contents of an agreed bundle of documents must be proved unless such contents are admitted by the other side. With respect, I say that where there is an agreed bundle of documents there is no need to prove these documents. This rule is too well established in law to be doubted.'

The other two members of the Federal Court in concurring must be taken to have affirmed this statement and it was not right for Sharma J to cast any doubt on this. He ought to have followed the decision. (Emphasis added.)

Going back to the time of the commencement of the proceedings when it came to the marking of the bundle of documents of the plaintiffs and the defendant, Dato Kandan said: 'They are all generally agreed'. When I questioned on the use of the word 'generally', Dato Kandan's reply was: 'They are agreed subject to proof'. When I pressed 'All documents', Dato Kandan's reply was 'No, the documents do not have to be proved, they have to be referred for them to go in'.

In this case each party put in their own bundle of documents which may include the documents of the plaintiffs or the defendant in either of the party's bundle of documents. In any event, none of the counsel indicated to the court of his or her objection to any particular document in the bundle of documents that would necessitate the calling of the maker of the particular document so that the contents of that particular document would be disputed. Be that as it may, if the plaintiffs put in the various documents in their bundle of documents and the defendant did not give any indication of any objection to any documents filed therein, in my view the plaintiffs would rely on those documents and the contents thereof as

well. The situation would be similar in respect of the defendant's bundle of documents. Therefore, to say that the documents would be admitted only if they are referred to, in my view, is not correct. Does it mean that the plaintiffs' own documents if not referred to are not to be admitted? Similarly with the defendants' documents in its own bundle of documents. If that is so then why put in those documents if they are not to form part of the evidence of each party's case?

In the circumstances, I rule that the contents of the documents in the bundle of documents (PB and DB) form part of the evidence before the court. It is a matter entirely for the party having agreed to the document to rebut or reduce the evidential or probative effect of the contents of the document by other evidence.

Having thus disposed of the issue of bundle of documents, it would be convenient for me to next consider the issue of the status of the first plaintiff in this action. This is on the premise that the first plaintiff is not a party to the TAA.

STATUS OF THE FIRST PLAINTIFF

Part of the defendants' case rests on the distinction between the exact identities of the two plaintiffs. However, according to Dato Kandan, counsel for the plaintiffs, these exact identities are immaterial because at all times the H & R Johnson business was effectively one business being run by one group of companies. Any distinction between the identities of the plaintiffs, contended Dato Kandan, is only of form and not of substance.

In any event, the plaintiffs contended that:

(i) the defendant is estopped from denying the first plaintiff the benefit of the TAA after having represented (expressly or by conduct) that it had accepted the novation;

(ii) if there is no novation, the first plaintiff was the agent of the second plaintiff and obtained the marks on behalf of the second plaintiff; and

(iii) alternatively, an implied agreement, containing the terms of the TAA, between the first plaintiff and the defendant can be inferred.

The plaintiffs are, inter alia, seeking to enforce cl 5(b) of the TAA. Clause 5(b) reads:

> If this agreement shall continue for the full period of 15 years or more as provided by cl 5(a) hereof then the Malaysian company on the expiration of this agreement under cl 5(a) hereof shall thereafter be entitled to use for its own benefit free of any fee such of the processes as shall have been disclosed by Johnson to the Malaysian company to the date of the expiration of this agreement: *Provided that the Malaysian company shall not be entitled to use any of the Johnson trade marks or any patents then subsisting or applied for by Johnson in the territory.* (Emphasis added.)

The TAA was executed between H & R Johnson-Richard Tiles Ltd (the predecessor of the second plaintiff) and the defendant. Under cl 1(c) of the TAA, 'the Johnson trade marks' shall mean the trade mark 'Cristal' and *any other trade mark or marks which Johnson may apply for and obtain*

A *from time to time with reference to the licensed products.* 'Johnson' referred to therein is H & R Johnson-Richard Tiles Ltd and now the second plaintiff as its successor. This fact is not disputed by the defendant. Further, by virtue of the transfer agreement dated 31 October 1978 (PB8 at pp 237–255) there was a transfer of the 'H & R Johnson' business from the second plaintiff to the first plaintiff. This would necessarily mean that the transfer B of the unregistered trade marks 'Johnson trade marks' under the TAA to the first plaintiff, who was not originally a party to the TAA. Prior to the transfer, it was the second plaintiff who claimed the Johnson trade marks under the TAA. Miss Ambiga, counsel for the defendant, conceded that there was consent from the second plaintiff to the first plaintiff on the C novation issue though initially at para 1 of p 12 of the written submission she contended that there was no consent by the second plaintiff. Dato Kandan conceded that there was novation in respect of the TAA but not JVA. In any event, the claim of the plaintiffs is centered on the TAA rather than the JVA.

D Dato Kandan himself conceded that the material time for the court to consider the allegation of passing off by the defendant would be the date of filing of this writ and therefore it is only proper for the court to consider first as to who has the right to claim the rights to the trade marks as of that date. Miss Ambiga, counsel for the defendant, would seem to agree.

As this writ was filed on 12 November 1992, it would seem clear that E those rights had been transferred to the first plaintiff (see the agreement dated 31 October 1978). In other words, it was the plaintiffs' case that there was novation of the TAA in favour of the first plaintiff. However, the defendant strenuously denied that there was such a novation in so far as it concerned the defendant and that as far as it was concerned the responsibility F for the TAA stayed with the second plaintiff.

Dato Kandan contended that as part of the transfer vide the agreement dated 31 October 1978, the first plaintiff acquired all trade marks and all goodwill associated with the 'H & R Johnson business' as of that date. Therefore, Dato Kandan contended that either way one of the plaintiffs G has the right to enforce cl 5(b) of the TAA and, as a practical matter, the issue of novation is irrelevant.

It may well be but in my view, on the facts, the issue of novation is relevant for my consideration as if there is no novation, the first plaintiff would not be the right party to enforce cl 5(b) of the TAA in this action together with the second plaintiff. This is quite apart from the other issues H relied on by the plaintiffs such as that the first plaintiff is the agent of the second plaintiff. It would be more convenient for me to consider the issue of novation first as the defendant disputed it on the ground that it had not consented.

I NOVATION

Before considering the facts or the evidence adduced in respect of whether novation has taken place, it is perhaps better to set out the law relating to novation.

Section 63 of the Contracts Act 1950 recognizes that parties can novate their contract. Section 63 reads:

> If the parties to a contract agrees to substitute a new contract for it, or to rescind or alter it, the original contract need not be performed.

Illustration (a) to s 63 states:

> A owes money to B under a contract. It is agreed between A, B and C, that B shall henceforth accept C as his debtor, instead of A. The old debt of A to B is at an end, and a new debt from C to B has been contracted.

The parties agreed in respect of the four requirements of novation as set out at p 8 of the defendants' written submission. They are:

(1) there must be an intention to novate;

(2) novation may be expressed or may be implied from conduct;

(3) there must be consideration; and

(4) there must be consent of all the parties concerned.

There seemed to be some confusion as regards to 'novation' and 'assignment'.

The defendant is relying on cl 5(g) of the TAA to say that written consent is required for novation.

Clause 5(g) of the TAA reads:

> The rights and obligations arising under this agreement are personal to Johnson and the Malaysian company and shall not be *assignable* by either of them except with the previous written consent of the other ... . (Emphasis added.)

'Johnson' referred to is the second plaintiff.

The submission of the defendant at p 16 of the written submission in support thereof is stated thus:

> If for assignment, which is only the assignment of benefits, written consent is required, *then it logically follows* that for novation which is the assignment of both benefit and burden written consent would be required too. (Emphasis added.)

Following logic, it was submitted that this requirement of written consent, perceived by cl 5(g), was given recognition by Norcros plc, the parent of the plaintiffs, in its letter of 6 August 1991 to get the defendant to sign a deed for novation and a letter of consent (see p 1527 of PBVol 5). It was submitted that since no written consent was obtained from the defendant as seemed to be required by cl 5(g) of the TAA, therefore there cannot be novation of the TAA.

In my view, the primary question is whether an assignment of rights is to be equated with novation? It was submitted by the plaintiffs that the circumstance of novation is wholly distinct from that of assignment and cannot be equated. I should think so as novation is the formation of a new agreement or the same terms of the old agreement. An assignment involves the transfer of the rights and liabilities (see s 3(4) of the Civil Law Act

A 1956). Novation, as I said earlier, is recognized by s 63 of the Contracts Act 1950 and there is no requirement that there must be notice in writing of the novation being given for it to have effect. *Chitty on Contracts* (Vol 1) (27th Ed) at para 19–050 at p 990 states:

> It should, however, be noted that the effect of a novation is not to assign or
B transfer a right or liability, but rather to extinguish the original contract and replace it by another.

It would seem clear to me that even the defendant conceded at p 11 of the written submission at paragraph 'The effect of novation is not to assign or transfer right liability ...'.

C Further, the defendant would seem to equally concede that to establish novation, the plaintiffs can rely on conduct as stated at p 8, para 1.1.2 of the written submission: 'The requirements to establish novation are ... Novation may be express, or may be implied from conduct'.

Novation was lucidly expressed in *Malaysian International Merchant*
D *Bankers Bhd v Datuk Mohd Salleh & Anor* [1988] 2 CLJ 90 at p 95:

> Novation, no doubt, is an act whereby, with the consent of all parties, a new contract is substituted for an existing contract and the latter is discharged. Usually but not necessarily, a novation takes the form of the introduction of a new party to the new contract and the discharge of a person who was a party to the old contract (see 9 *Halsbury's Laws of England* (4th Ed) para 580).
E Whether there was consent to novation may, however, be inferred from conduct without express words (*Chatsworth Investments Ltd v Cussins (Contractors) Ltd* [1969] 1 All ER 143) ... .

It would seem clear to me that the defendant cannot rely on cl 5(g) of the TAA to say that since there was no written consent by it, there was no
F novation and I rule so accordingly.

It would thus clearly appear that cl 5(g) of the TAA in so far as written consent is required applies only in respect of *assignment* and the granting of any sub-licence by the defendant.

I will now have to determine whether there was novation of the TAA.
G The defendant strenuously denied that there was novation and said that as far as it was concerned the responsibility for the TAA stayed with the second plaintiff at all times.

The evidence showed that as at 1976 (the date the TAA was executed), the names 'H & R Johnson' and 'Johnson' and the logo were according to
H the plaintiffs, the second plaintiff's trade marks at common law. They constituted common law trade marks. They were trade marks which had become distinctive of the second plaintiff's goods and business at that time and in respect of which it was claimed that goodwill had been acquired.

It would appear that during the period 1936 to 1978 it was the second
I plaintiff who had carried out the worldwide 'H & R Johnson' business. However, Mr Hamilton ('PW3') (Answer 11) gave evidence that prior to the take-over of the plaintiffs' companies in 1979, there was a transfer of the 'H & R Johnson' business from the second plaintiff to the first plaintiff in 1978 pursuant to the agreement of 31 October 1978 (see Plaintiffs

Bundle No 8 at pp G237–G255). The agreement took effect on 1 April 1978. In his Answer 11, PW3 said that cl 1 of the agreement which transferred the assets to the first plaintiff includes:

(i) in sub-cl 1(a) the goodwill of the 'H & R Johnson' business including the benefit of any trade names;

(ii) in sub-cl 1(f) the benefit of all 'pending contracts, licences, engagements ...'; and

(iii) in sub-cl 1(g) the full benefit of all trade marks.

As at that date, the first plaintiff took over and subsequently carried on the 'H & R Johnson' tile business in both the United Kingdom and worldwide.

In relation to the defendant, the first plaintiff took over responsibility and performed all the obligations which the second plaintiff had to perform under the TAA (see PW3's Answer 16).

The plaintiffs relied on the following actions and conduct of the defendant to show that there was novation:

(1) The transfer of responsibility was informed to the defendant vide letter dated 26 January 1978 (see pp 1493–1494 in PB5) and accepted by the defendant vide its letter dated 11 February 1978 (see pp 1495 in PB5).

Tengku Aziz ('PW8') in his Answer 35 did not object to the change and stated:

> No, why should I? The restructuring was purely internal. My impression was that instead of dealing with one part of the company, we were to deal with another part which took care of overseas interest. It did not matter as they were all companies of H & R Johnson UK. We did not feel anxious about it. It made no difference to us particularly. Being General Manager, I was concerned only about two things: first, that we continue to receive H & R Johnson technology, and second, that we get to use their H & R Johnson name for tiles. These were not interrupted and I did not fuss about their restructuring.

(2) From the minutes of the 34th meeting of the directors of the defendant (pp 155–159 of DB1), it was unanimously resolved that authority be given to the Chairman to sign terms of reference (pp 157–159 of DB1) for the establishment of the defendant's floor tile project. The terms of reference were clearly stated to be between the defendant and H & R Johnson Tiles Ltd (first plaintiff). The second plaintiff was at that time known as 'Norcros Industry (International) Ltd'.

The position of the first plaintiff was stated to be that of a 'professional consultant who will normally deal with all technical aspects of contract, taking instructions from, and reporting to the defendant'. Clauses 12 and 13 of the terms of reference also provided that the terms of reference 'does not prejudice any of the clauses of the present technical aid agreement' and that 'on the finalisation of this project, this terms of reference aid agreement stands'.

It was submitted that if the defendant insists that the TAA was with the second plaintiff, why was it necessary to expressly provide in the terms of reference that the terms of the TAA shall stand upon finalisation of the floor tile project? It was further submitted that if the parties to the terms of reference were different from the parties to the TAA then how could the parties to the terms of reference purport to affect the contractual rights of the second plaintiff under the TAA?

In fact, Dato Mustapha ('DW1') gave evidence that all obligations of the first plaintiff under the terms of reference were carried out and that in respect of the work carried out by the first plaintiff thereunder, there was no additional fees paid to the first plaintiff. The only payment made was the payments provided for under the TAA. It was submitted that how could the defendant then honestly argued that all these were done without the defendant accepting that the first plaintiff stood in place of the second plaintiff as a contracting party to the TAA.

(3) The defendant knew that it had a representative of the second plaintiff on its Board even though it knew that the first plaintiff was providing the technical assistance under the TAA from 1978 to 1992. The defendant dealt with the second plaintiff under the TAA from 1976 to 1978.

(4) Dr Zainuldin ('DW3') admitted under cross-examination that when he joined the defendant, he was aware that although the TAA was made with the second plaintiff, it was the first plaintiff who prepared and provided technical assistance under the TAA.

(5) The most telling point on the issue of novation having being accepted by the defendant, according to the plaintiffs, would be the prospectus issued at the time of the defendant's floatation (see pp 1540–1580 of PB5). Dato Lodin ('DW2') acknowledged, and I think rightly so, that the prospectus had been prepared with the benefit of extensive advice from the defendant's lawyers and merchant bankers as is the norm, on the basis of the information provided by the defendant. Accuracy is very important so as to avoid misleading the public who were going to subscribe for the shares on floatation.

On p 10 of the prospectus under the heading 'Technical Expertise' (p 1552 of PB5), the following is stated:

> Under a technical assistance agreement dated 15 December 1976 with HRJ UK which is due to expire in September 1992, the company receives assistance on technical matters, product development, manufacturing process, compound formulations and specifications for materials. Negotiations are currently in progress on the renewal of the technical assistance agreement.

HRJ UK referred to H & R Johnson Tiles Ltd United Kingdom which is the first plaintiff. Reference was also made to Norcros Industry (International) Ltd, the second plaintiff (see para 13.3 of p 1551 of PB5). The defendant, no doubt, was aware of the separate

identities of the plaintiffs. By its own conduct, the defendant accepted that there had been novation of the TAA from the second plaintiff in favour of the first plaintiff. A

The defendant did not deny the correctness of the statements in the prospectus for its listing.

(6) The second paragraph of the letter dated 23 March 1992 the defendant through DW3 made specific reference to the transfer of responsibilities from the second plaintiff to the first plaintiff (see p 1539 of PB5 and PW3's Answer 83). B

The defendant contended, however, that if there is no requirement for the novation to be accepted in writing why was there a need for a letter dated 6 August 1991 from PW3 enclosing a draft of the proposed deed of novation (see pp 1527 to 1534 of PB5) to the defendant? The answer to this is provided by PW3 in Answers 79 and 80 of his witness statement. PW3 explained that action was taken out of abundance of caution so as to have the fact of novation formally recorded. C D

PW3 went further to explain (Answer 80 at p 47):

> If I had realized just how clear it was that we had fully explained to the defendant about the change of ownership and responsibilities and just how clear it was that the defendant had accepted the position, then I probably would not have bothered with any formal novation. E

In any event, the defendant had the benefit of the advice of its solicitors, Skrine & Co, and decided not to respond on the letter of novation. In other words, the defendant would seem to feel that it was not necessary to do so as the TAA should be allowed, according to its lawyers, to run its full course as it would lapse in September 1992 (see item (iv) of p 678 of DB-E (DB–4)). F

The defendant in its letter of 23 March 1992 at second paragraph made reference to the transfer of responsibilities from the second to the first plaintiff (PB5 p 1539, PW3 — Answer 83).

It is my firm view that there is overwhelming evidence that there was novation by the conduct of the defendant. There are no two ways about it and it is too late in the day for the defendant to take issue on no novation having taken place. G

If the defendant is so serious on the novation not having taken place, that is, the status of the first plaintiff is questionable, in my view, the proper course for the defendant to take is to invoke O 15 r 6(2)(a) of the Rules of the High Court 1980 to strike out the first plaintiff as a party to this action. As far as I can gather from the record, the defendant failed to do so. I am not suggesting that failure to do so by the defendant is fatal to the issue of novation but it will, I think, lend weight to the stand that it is taking. H I

In view of my ruling, I do not think it is necessary to consider the other grounds relied on by the plaintiffs, for example, agency.

A Having thus so ruled, I will now proceed to consider the substantive claim of the plaintiffs. The plaintiffs, as I said earlier on, rely on two main causes of action:

(1) passing off; and

(2) the plaintiffs' contractual rights arising under the TAA or alternatively, an implied agreement upon the terms of the TAA between the first plaintiff and the defendant.

B

PASSING OFF

C For the purpose of considering this issue, the rights of the parties must be judged at the commencement of this action, that is, November 1992 and I think, rightly agreed by counsels for both parties. In respect of the contractual rights, the TAA was terminated on 30 September 1992 and thereafter the plaintiffs allegedly claimed that the defendant began the acts of passing off.

D Before proceeding further, it would not be inappropriate to set out the brief history of the first and second plaintiffs.

David Willian Hamilton ('PW3'), a Commercial Director of Norcros plc, the parent company of the plaintiffs from 4 April 1996 gave evidence of the incorporation of the first and second plaintiffs. Prior to 14 April E 1996, PW3 held the following positions:

(i) Group Legal Adviser since 1973.

(ii) Since 1979, Legal Adviser to both the first and second plaintiffs.

(iii) In 1989, took on the additional role of Company Secretary to Norcros plc.

F

According to PW3, the first plaintiff was formed under the Laws of United Kingdom as company No 307859 on 6 December 1935 under the name of 'The Cauldon Tile Co Ltd' (see p 1456 of PB5). This name was subsequently changed to 'Richard-Cauldon Tiles Ltd' on 23 October G 1962. There was a further change on 13 June 1968 to 'H & R Johnson Ltd' and finally on 21 June 1979 to its present name of 'H & R Johnson Tiles Ltd' (see pp 1457–1459, Vol 5 and G280, Vol 8)

The second plaintiff was formed as a United Kingdom company under No 308999 on 6 January 1936 with the name of 'H & R Johnson Ltd' (see p 1460, Vol 5). The first change of name was on 31 May 1968, to 'H & R H Johnson-Richards Tiles Ltd'. It further changed its name on 8 January 1980 to 'Norcros Industry Ltd' and again on 1 April 1981 to its present name of 'Nocros Industry (International) Ltd' (see pp 1461–1463, Vol 5 and G281 Vol 8).

I do not think I need to set out the details of the restructuring of the I plaintiffs as they are sufficiently set out in Answers 8, 9, 10 and 11 of PW3's evidence and illustrated by the chart (see p 1455, Vol 5). Suffice for me to state that 'H & R Johnson' business started way back in 1901 in the United Kingdom and over the years spread its wings to many countries,

Greece, Australia, India, etc by way of either subsidiaries or associated companies of the UK 'H & R Johnson' business which is essentially on ceramic tiles business.

Both counsel would seem to reach the consensus regarding the locus classicus on the elements of passing off to be found in the case of *Ewen Warwlck v Townsend* [1980] RPC 31. It was held at p 93 that five elements must be satisfied in order to create a valid cause of action for passing off:

(a) a misrepresentation;

(b) made by a trader in the course of trade;

(c) to prospective customers of his or ultimate customers of goods or services supplied by him;

(d) which is calculated to injure the business or goodwill of another trader (in the sense that this is a reasonable foreseeable consequence); and

(e) which causes actual damage to a business or goodwill of the trader by whom the action is brought or (in a quia timet action) will probably do so.

Subsequently, the House of Lords in *Reckitt & Colman Products v Borden Inc* [1990] RPC 341, [1990] 1 All ER 873 has simplified the elements of passing off to three. Lord Oliver at p 406 said:

> First, he must establish a goodwill or reputation attached to the goods or services which he supplies in the mind of the purchasing public by association with the identifying 'get-up' (whether it consists simply of a brand name or a trade description, or the individual features of labelling or packaging) under which his particular goods or services are offered to the public, such that the get-up is recognized by the public as distinctive specifically of the plaintiff's goods or services. Secondly, he must demonstrate a misrepresentation by the defendant to the public (whether or not intentional) leading or likely to lead the public to believe that goods or services offered by him are the goods or services of the plaintiff. Whether the public is aware of the plaintiff's identity as the manufacturer or supplier of the goods or services is immaterial, as long as they are identified with a particular source which is in fact the plaintiff. For example, if the public is accustomed to rely upon a particular brand name in purchasing goods of a particular description, it matters not at all that there is little or no public awareness of the identity of the proprietor of the brand name. Thirdly, he must demonstrate that he suffers or, in a quia timet action that he is likely to suffer, damage by reason of the erroneous belief engendered by the defendant's misrepresentation that the source of the defendant's goods or services is the same source of those offered by the plaintiff.

Before proceeding further, I must say, with respect, that I am unable to follow the submission of the counsel for the defendant at p 32 of the defendant's written submission and I quote: 'We submit that as between the issues of contract and those of passing off, the latter takes precedence', and seemingly relied on the following cases:

(1) *Adrema Ltd v Adrema-Werke GmbH* [1958] RPC 323

A (2) *Aktiebolaget Manus v RJ Fullwood and Bland* (1949) 66 RPC 71; [1949] 1 All ER 205

(3) *Bostitch Trade Mark* [1963] RPC 183

(4) *Bowden Wire Ltd v Bowden Brake Co Ltd* (1914) 31 RPC 385

(5) *Habib Bank Ltd v Habib Bank AG Zurich* [1982] RPC 1

B (6) *Jaeger v Jaeger Co Ltd* (1927) 44 RPC 437

(7) *Sturtevant Engineering Co Ltd v Sturtevant Mill Co of USA Ltd* (1936) 53 RPC 430

(8) *T Oertli A G v E J Bowman (London) Ltd* [1959] RPC 1

C With due respect to the counsel for the defendant, I think she missed the point that passing off and breach of contract are independent separate causes of action. As rightly put by Dato Kandan, counsel for the plaintiffs, 'that one is not dependant on the other'. Therefore, the question of passing off taking precedence over the breach of contract does not arise. In D *Oertli*'s case, Viscount Simonds said at p 5:

> It may be that the terms of the license expressly or impliedly deny to the licensee the right to use the name but that has nothing to do with a passing off action. *If he breaks his contract, he can be sued without proof of passing off.* (Emphasis added.)

E It is to be noted that the other cases cited by counsel for the defendant are on passing off action and not on any breach of contract and are therefore of no assistance to the defendant on breaches of contract issue.

By their writ, the plaintiffs are relying on passing off action and breaches of the TAA as causes of action against the defendant (see plaintiffs' F claim under para (1)(d) and (e)).

It is perhaps best that it be noted that the plaintiffs are not proceeding for infringement of registered trade marks under s 38 of the Trade Marks Act 1976 where the mark must have been 'used as a trade mark' in relation to goods. The plaintiffs are claiming that if the name or mark in question has been used in relation to the business alone, that would be sufficient to G constitute passing off (see *Ewing v Buttercup Margarine Co Ltd* (1917) 34 RPC 232). According to the plaintiffs' counsel, whether or not the mark has been used in relation to goods is not the issue. Simply put, the question is whether the plaintiffs acquired a reputation and goodwill in the name or mark and will that reputation and goodwill be damaged by the H defendants' use of that name or mark?

I do not think it can be disputed by the defendant that the name or mark H & R Johnson or Johnson used by it is not associated with that of the plaintiffs' name or mark. This is borne out by the TAA and the main ground for the JVA to be entered into with the plaintiffs by the local I institutions in setting up the defendant (see evidence of Tunku Abdul Aziz, PW8).

According to Lord Oliver at p 406 in *Reckitt*'s case, the three elements required for passing off, in short, are:

(1) goodwill or reputation;
(2) misrepresentation; and
(3) damages.

Goodwill or reputation

I would rather confine myself to considering whether the plaintiffs had shown that they had established 'goodwill' rather than to confuse it with the word 'reputation' used by Lord Oliver in *Reckitt*'s case. In any event as conceded by counsel for the plaintiffs, reputation per se — not associated with goods, services or a business — is probably not protectable. What then is the term 'goodwill'?

Goodwill was considered by Lord MacNaghten in *The Commissioners of Inland Revenue v Muller & Co's Margarine Ltd* [1901] AC 217 at pp 223–224:

> ... What is goodwill? It is a thing very easy to describe, very difficult to define. It is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates.

Before considering the evidence relied on by the plaintiffs to show goodwill, I must touch on whether goodwill is territorial as submitted by the counsel for the defendant. According to her, there is no such thing as global goodwill. I must make it clear that I need not even consider the issue of whether goodwill is territorial or global as it seems clear to me that the plaintiffs are relying on having established goodwill in Malaysia and the global goodwill issue really is what the defendant was trying to take advantage of in Malaysia of the plaintiffs goodwill worldwide. This is borne out by the statement at PBD Vol 8 p 107:

> Technical assistance in the form of training and advice is derived from H & R Johnson-Richard Tiles (UK) Ltd and hence it remains that each tile produced carries the same artistic integrity and skill that distinguishes Johnson tiles the world over.

Just to quote another example would be the photograph at p 2085 PBD–7 of the defendant's showroom by PW5 which advertises the statement 'H & R Johnson A worldwide organization with factories in UK, USA, Greece, India, Canada, Australia, South Africa and Malaysia'.

It was the plaintiffs case that they enjoy a substantial goodwill in the H & R Johnson or Johnson marks in Malaysia. Goodwill was acquired through commercial use of the name and badge by the plaintiffs or on their behalf in relation to their goods and/or business. The plaintiffs' goodwill in the marks in Malaysia originated well before the defendant even existed. The goodwill according to the plaintiffs, was subsequently maintained and developed by the plaintiffs:

(a) through their close association with the defendant throughout the life of the TAA;

(b) through their close involvement in and control over the standard and quality of the goods sold by the defendant under the Johnson marks;

(c) through the sales agency pursuant to which the defendant sold the plaintiffs tiles in Malaysia up until 1990; and

(d) through the promotion of the defendant as part of the plaintiffs' Group and as an authorized source of 'H & R Johnson' and 'Johnson' tiles both in Malaysia and abroad.

It was further contended by the plaintiffs that the defendant as a licensee developed goodwill on behalf of the plaintiffs by its use of the Johnson marks.

The evidence of goodwill allegedly acquired and developed by the plaintiffs appears to be:

Before 1976 — Prior to incorporation of the defendant

Mr Hamilton ('PW3') gave evidence of the history of the 'H & R Johnson' tile business and traced its origin to the foundation of the business in 1901 in Stoke-on-Trent. Mr Mathews ('PW4') explained that the plaintiffs' 'H & R Johnson' business is the business of manufacturing and selling ceramic wall and floor tiles. I do not think this is disputed by the defendant.

The defendant tried to challenge the evidence of the goodwill of 'H & R Johnson' prior to 1976. However, I am satisfied that the plaintiffs' 'H & R Johnson' marks were already known in the market in Malaysia before 1976 through the evidence of:

(a) David Tinsley ('PW1') regarding the agency through which Tinsley Elliot (Private) Ltd ('Tinsley Elliot') during the period 1968 to 1975 or 1976 acted as agent of H & R Johnson Ltd (that is, the second plaintiff) negotiating business with both Malaysia and Singapore importers of 'H & R Johnson' tiles manufactured by the plaintiffs in the United Kingdom and by H & R Johnson (India) Ltd;

(b) Mr Riley ('PW5') that 'Johnson' tiles were already being sold in Malaysia when he joined the company in 1952;

(c) Mr Murphy ('PW2') of importation and sales of 'H & R Johnson' tiles in Malaysia during the period 1968 to 1976;

(d) Mr Mahalingam Velantha ('PW6') that 'Johnson' tiles were widely used in housing projects in Malaysia and 'were quite well-known in the trade' in the 1950s at the time when he worked with the Housing Trust of Malaya; and

(e) the defendant's own witness, Mr Goh ('DW5') who under cross-examination admitted that Johnson UK tiles were sold during the early days even before the defendant was established. DW5 even referred to Koon Hoe as another trading house for Johnson tiles at that time.

I do not propose to go into minute details of the evidence of the plaintiffs under this category but suffice for me to say that I am more than satisfied that evidence was clearly established of the inroad of Johnson UK's tiles in Malaysia before 1976 thereby establishing the name of 'H & R Johnson' or 'Johnson' tiles in Malaysia and the plaintiffs' 'H & R Johnson' business in Malaysia enjoyed substantial goodwill. It was and must be because of the establishment of the goodwill of 'H & R Johnson' business in Malaysia that prompted the setting up of the defendant under JVA with the plaintiffs (at least, the second plaintiff then).

In fact, speaking of the period 1974–1976, Tunku Abdul Aziz ('PW8') — the first General Manager of the defendant (for the period 1976–1979) — stated in evidence-in-chief:

> 'H & R Johnson' tiles already had a worldwide reputation at the time and were known for their quality and variety ... reflected in their Johnson tiles ... (Answer 5).

Further in Answer 37, PW8 said:

> By using their technology and the H & R Johnson or Johnson name, we could immediately sell our tiles to a market with a ready acceptance of H & R Johnson or Johnson tiles as quality tiles. Without the H & R Johnson or Johnson name, we would have had to first build a name for our tiles and that may take many years, not to mention, a substantial amount of money to achieve.

Though counsel for the defendant tried to discredit the evidence of PW8 by referring to the observations of Mr Shaw, director of the plaintiffs in the injunction proceedings, I do not think such observations necessarily mean that PW8's evidence is to be totally rejected by the court. In fact, PW8 was one of the key negotiators for Dunlop with the plaintiffs and surely he should and would know what he was saying. I accept his evidence on this aspect.

Interestingly enough, counsel for the defendant herself would seem to concede on the plaintiffs' entry into the market in Malaysia of 'H & R Johnson' or 'Johnson' tiles prior to the establishment of the defendant. However, she seemed to suggest that such entry was minimal but such suggestion is against the weight of the evidence as found by me.

Establishing the defendant in 1976 and building its first factory 1976–1977

The defendant was incorporated as a private limited company on 22 April 1976 under the name of 'H & R Johnson (M) Sdn Bhd' pursuant to the JVA.

It is common ground that the defendant was set up to manufacture ceramic tiles with the assistance and technical know-how of the plaintiffs. This is so provided by the TAA.

It cannot be denied that there was overwhelming evidence of the assistance of the plaintiffs' personnel in locating the site of the factory for

A the defendant and identifying the area for clay as well as providing the initial training of the staff of the defendant in plaintiffs' headquarters in United Kingdom as well at the defendant's factory here. No doubt there was evidence, at least through Dr Zainuldin ('DW3') of the unhappiness of the defendant in the sort of assistance provided by the plaintiffs. This, however, does not detract from the fact of the assistance given by the B plaintiffs and the dissatisfaction is to a certain degree minimal. Even in the acquisition of the equipment for the floor tile, the equipment that was purchased through the Italian source was also with the assistance of the plaintiffs.

C Close involvement of the plaintiffs in the activities of the defendant 1976–1992

I do not think it can be disputed by the defendant that the plaintiffs have produced a substantial body of evidence to show the nature, level and extent of their involvement with the defendant throughout the period of D the TAA though in return for a fee.

The plaintiffs contended the following as instances of their involvement with the defendant:

(a) the plaintiffs assisted the defendant to build and extend their factories and helped solve problems which arose in operating them (see evidence E of DW5 and PW5);

(b) the plaintiffs found staff for the defendant (see evidence of DW5);

(c) the plaintiffs provided trouble-shooting though the trouble-shooting for the floor tiles may not be satisfactory or that successful (see evidence of DW1 and PW5); F

(d) the plaintiffs found technical advisers for the defendant (see evidence of DW5); and

(e) the defendant was given free access to technical, marketing and design information held or developed by the plaintiffs especially the evidence of PW7: " 'H & R Johnson' UK makes its designs available G to all 'H & R Johnson' manufacturers" (see also the evidence of PW3 and PW4).

In a nutshell, from the body of evidence adduced by the plaintiffs, the plaintiffs claimed that, as at the trial of this action, the plaintiffs enjoyed a substantial goodwill in Malaysia in relation to the names and marks H 'H & R Johnson' or 'Johnson' and the logo in relation to tiles and/or tile-making.

The following evidence was further relied upon by the plaintiffs in respect of their close involvement with the defendant:

I (a) the defendant's role as sales agents of the plaintiffs;

(b) the technical and other assistance provided by the plaintiffs;

(c) the plaintiffs' control of the quality of the tiles manufactured by the defendant; and

(d) the defendant being held out as a part of the plaintiffs' Group.

Ample evidence was adduced through the plaintiffs witnesses in regard to (a) above' including the evidence from the defendant's witness, Goh Kai Chang ('DW5'). A report prepared by the defendant spoke of plans to 'phase out imports ex UK' (see pp 132–133 of PB1). It was achieved by 1991. DW5 spoke of the defendant's importation of 'H & R Johnson' tiles from the plaintiffs between 1978 and 1985 for a golf club in Seremban and PW5 gave unchallenged evidence that in 1993 the Selangor Club Kuala Lumpur had Johnson Sheraton tiles made by the plaintiffs on its walls.

As regards (b) and (c), the evidence is clear that the plaintiffs provided the technical and other assistance as well as were involved in the control of the quality of the tiles manufactured by the defendant though it seemed the defendant may not be that happy at the later stage of the TAA of the assistance provided by the plaintiffs.

As regards (d), the defendant would seem to hold itself as being part of the worldwide Johnson Group or at least associated with the plaintiffs if we look at p 2085 of Vol 7 (evidence of Mr Mayer in his Answer 62). It reads:

> H & R Johnson — A worldwide organization with factories in UK, USA, Greece, India, Canada, Australia, South Africa and Malaysia.

Further, from an advertisement placed by the defendant (PB–8 p 107), it would seem clear that the defendant was keen to make an association with the plaintiffs (see PW3's evidence in Answer 63). It reads:

> Technical assistance in the form of training and advice was derived from H & R Johnson-Richard Tiles (UK) Ltd and hence, it remains that each tile produced carries the same artistic integrity and skill that distinguish Johnson Tiles the world over.

The defendant relying on the *Law of Intellectual Property* by Stemiforth Ricketson ('Ricketson') at p 561, regarding evidence on goodwill where it is stated that evidence of goodwill may be proved through all or a combination of some of the following:

(1) evidence of sales and turnover within the jurisdiction;

(2) evidence of advertising and the extent, nature and frequency of this;

(3) oral or affidavit evidence of person who have bought or have dealt in or know the defendant's products;

(4) the number of branches or outlets for the defendant's products or business and their geographical spread;

(5) the length of time over which the defendant has traded and/or advertised their products or business; and

(6) evidence of any exhibitions or shows at which the defendant has promoted its products.

There is no doubt that the defendant adduced extensive evidence regarding (1), (2), (4), (5) and (6) above with the exception of (3) regarding

goodwill. Equally, it is also clear that the defendant more or less conceded the plaintiffs' inroad into the Malaysian market of the mark 'H & R Johnson' or 'Johnson' before the incorporation of the defendant though the defendant questioned the degree of the inroad. However, the crucial question is whether during the period of the TAA and subsequently after the termination of the TAA, the defendant held out itself as representing the plaintiffs' name and the mark 'H & R Johnson' or 'Johnson' in respect of the tiles marketed by the defendant.

In this respect, Christopher Wadlow on *The Law of Passing-Off* (2nd Ed) at p 109 said:

> From *Bostitch* and *Manus*, it appears that once a business becomes identified with a foreign principal, the goodwill continues to accrue to the foreign rather than the local one for as long as the latter is held out as representing the former, *even if the balance of control shifts to the local business*. (Emphasis added.)

The plaintiffs named the following instances of the defendant's holding out as representing the plaintiffs' name and the mark 'H & R Johnson' or 'Johnson'.

As regard to the tagline 'Beautiful things happen with Johnson tiles', PW7 gave evidence first that this originated with the plaintiffs (Answer 17) and he was not challenged on this. However, DW5 thought that this originated with the defendant's advertising agents and, when cross-examined, DW5 said: 'By right that should be original' without calling the advertising agent to confirm that it had originated the tagline!

No doubt in its advertisement the defendant always emphasised that it is 'solely managed and technically operated by Malaysians ... for Malaysians'. However, it cannot be disputed that the defendant has always been technically dependent on the plaintiffs throughout the TAA.

In regards to (3) above, as I said earlier, no evidence was led by the defendant that when the public bought the tiles they knew that the tiles were made in Malaysia. The crucial question is even assuming they bought the tiles knowing that the tiles were made in Malaysia, were the tiles bought on the strength of the association with the plaintiffs' tiles? I should think so given the body of evidence adduced by the plaintiffs. It cannot be otherwise. If the defendant were to rely on having the goodwill subsequently accruing to it, then it is a matter for it to call the members of the public to give evidence in support of its contention.

In fact, the defendant's counsel in her submission quite correctly admitted that the public is not worried about the precise details of the technical relationship and indeed the public will in no way be able to find out the details. What more about the minute details about internal quality testing of the tiles by the defendant vis-a-vis the plaintiffs. They are irrelevant as submitted by the counsel for the defendant and I think rightly so.

Oertli's case relied on by the defendant in fact would be more in favour of the plaintiffs instead. In *Oertli*'s case, the plaintiff had failed because the

plaintiff could not show importation and sales of the plaintiff's 'Turmix' machines to create an inference that the trade mark 'Turmix' could be referable to the plaintiff's machines. Further, the plaintiff had developed no goodwill before entering into the licence.

In this case, there was ample evidence shown of the sales of the plaintiffs' tiles in Malaysia well before the incorporation of the defendant and as found by me goodwill was established. It was on the basis of the establishment of the plaintiffs' tiles in Malaysia that there was the JVA executed with the plaintiffs having an equity in the defendant (see the evidence of PW8). A valid licence by way of TAA was then executed. This is not a situation of a bare licence.

As regards the defendant's contention that it was the first user of the name 'H & R Johnson' or 'Johnson', in my view, such a contention cannot be accepted as there is overwhelming evidence as found by me that such name or mark was already in the Malaysian market well before the incorporation of the defendant. The goodwill was vested in the plaintiffs and continued to be so during the period of the TAA by the presentation of the evidence by them as stated by me earlier. In fact, the defendant would seem to concede through its counsel, as said earlier by me, of the goodwill and reputation of the plaintiffs of 'H & R Johnson' or 'Johnson' name before the incorporation of the defendant.

The submission that the defendant, as the honest concurrent user of the name or mark 'H & R Johnson' or 'Johnson' should have equal rights to use the name or mark, in my view, would be good so far as during the period of the TAA and no more once the TAA expired.

As for the abandonment issue relied on by the defendant, this cannot, in my view, be true as the plaintiffs clearly had shown:

(a) through the evidence of PW3 regarding the letter of 21 March 1991 (1537 Vol 5 PB) seeking unequivocally the return of the trade marks upon expiration or termination of the TAA; and

(b) by the filing of this suit soon after the termination of the TAA to enforce their rights to the goodwill of 'H & R Johnson' or 'Johnson'.

Suffice for me to say that the plaintiffs had shown through overwhelming evidence without going into greater details that the plaintiffs had shown thus far the goodwill in the marks or names 'H & R Johnson' or 'Johnson' vested in them and not the defendant.

Misrepresentation

In regard to the element of misrepresentation, the defendant's case was that there was no association with the plaintiffs on 'our tiles, letterhead or packaging in the sense that no reference was made to them'. The plaintiffs contended that this could not simply be accepted.

According to the plaintiffs, all the evidence established at the trial show that the use of the 'H & R Johnson' or 'Johnson' name itself in relation to the business of tile manufacture indicates a reference in

association with the plaintiffs or the worldwide H & R Johnson Group. This was even before the incorporation of the defendant (see evidence of PW6 and PW8). When the defendant was incorporated under 'H & R Johnson' name there was already representation that it is a part of or associated with the plaintiffs or the plaintiffs' Group. Granted that the defendant is not a subsidiary or associate company of the plaintiffs but I think it is immaterial so long as it can be shown that the defendant had represented its association with the plaintiffs in respect of the tiles manufactured by it by virtue of the JVA and the TAA.

In respect of the defendant's allegation that the plaintiffs failed to show instances of confusion nor produced examples of mistaken purchases or trap orders, this is provided by the answer that the plaintiffs have ceased trading in Malaysia by reason of the defendant's activities under the TAA and by instituting this suit.

In any event, it is not necessary for the plaintiffs to show actual confusion. A likelihood of confusion, it would appear, would be sufficient. Both the plaintiffs and the defendant are using the same or identical names and trade marks in relation to identical goods (see *Seet Chuan Seng & Anor v Tee Yih Jia Foods Manufacturing Pte Ltd* [1994] 2 MLJ 198). If it does not create a likelihood of confusion, I do not know what does.

Be that as it may, the case of *Habib Bank Ltd v Habib Bank AG Zurich* [1982] RPC 1 (CA) relied on by the defendant is not applicable to this case. It may only perhaps be applicable during the subsistence of the TAA but not after the expiry of the TAA. In fact, to claim that there is such an association, in my view, will constitute a misrepresentation.

The other case relied on by the defendant, ie *Anderson & Lambke v Anderson & Lembke Inc* [1989] RPC 124 was an interlocutory injunction hearing. There the use of the name was allowed as a company name but not as a trade mark and hence the injunction was not allowed.

Damages

It follows that if the plaintiffs succeeded in showing goodwill and that there was misrepresentation of the tiles by the defendant in reference to the name or mark 'H & R Johnson' or 'Johnson' as that of the plaintiffs or associated with the plaintiffs, that is, distinctive of the plaintiffs' tiles, damages will naturally ensue. I say so for the following reasons:

(a) PW3 and PW4 testified that the plaintiffs have been unable to sell goods direct into Malaysia since November 1992 or to enter into arrangements with other parties for the manufacture and sale of their products in Malaysia. In order to enter into a partnership with a local company, the main attraction for any such party would be the right to use the names 'H & R Johnson' or 'Johnson' and thereby to align with the plaintiffs. This would not be possible because of the defendant's activities. This would be possible only if the dispute is resolved and the defendant's misrepresentation have ceased. The apparent lack of exclusivity would undoubtedly create confusion if

the local company in association with the plaintiffs were to market 'H & R Johnson' or 'Johnson' tiles here with the defendant's misrepresentation. A

(b) The defendant's continued use of the Johnson mark or name would cause damage to the plaintiffs' goodwill or reputation as the plaintiffs no longer having control of the quality of the defendant's tiles which may not be of the quality established by the plaintiffs here and throughout the world. This is so when the defendant's tiles are associated or represented as distinctive of the plaintiffs' tiles. B

Taking the totality of the evidence adduced by the plaintiffs and testing it against that of the defendant's, I am satisfied that the plaintiffs had shown that the three elements that constituted the common law tort of passing off are satisfied. Hence, it is my finding that the defendant committed the tort of passing off and on this ground the plaintiffs should succeed. C

In any event, I will next consider the second cause of action relied on by the plaintiffs. D

PLAINTIFFS' CONTRACTUAL RIGHTS UNDER THE TAA

As I have already ruled on the issue of novation, that is, the plaintiffs' common law rights of the marks or name 'H & R Johnson' or 'Johnson' and the logo, I need to consider only the terms of the TAA and the effect thereof under this heading. E

Clause 5(b) of the TAA reads:

> If this agreement shall continue for the full period of 15 years or more as provided by cl 5(a) hereof the Malaysian company on the expiration of this agreement under cl 5(a) hereof shall thereafter be entitled to use for its own benefit free of any fee such of the processes as shall have been disclosed by Johnson to the Malaysian company to the date of expiration of this agreement provided that the Malaysian company shall not be entitled to use any of the Johnson trade marks or any patents then subsisting or applied for by Johnson in the territory. F

Under cl 1(c) of the TAA, 'the Johnson trade marks' shall mean the trade mark 'Cristal' and any other trade mark or marks which Johnson may apply for and obtain from time to time with reference to the 'licensed products'. G

Licensed products' under cl 1(c) of the TAA shall mean ceramic tiles of all types and 'territory' shall mean Malaysia and Singapore. H

The thrust of the defendant's submission is that the definition of 'the Johnson trade marks' means that it relates to registered trade marks and hence confined to 'Cristal' trade mark only. It does not cover 'H & R Johnson' or 'Johnson' even though the definition includes 'any other mark or marks which Johnson may apply for and obtain from time to time with reference to the licenced products'. According to the defendant, such name or mark 'H & R Johnson' or 'Johnson' must necessarily mean 'registered trade marks'. I

It is to be observed that from the framing of the statement of claim, the plaintiffs are not claiming breach of the registered trade marks as a cause of action but breach of the TAA as the alternative to passing off action. Though Cristal was a registered trade mark, does it follow as contended by counsel for the defendant applying the ejusdem generis rule that 'any other mark or marks' must necessarily refer to registered trade marks? Counsel for the defendant seemed to concede on being questioned by the court that the use of the term 'trade marks' broadly do include all the rights: common law and statutory rights.

Clause 2(b) of the TAA reads:

> [A] non-exclusive right and licence to export the licensed products manufactured in Malaysia under the Johnson trade marks.

If, as counsel for the defendant contended, the definition 'Johnson trade marks' in the TAA is confined to Cristal and registered trade mark of 'H & R Johnson' or 'Johnson', then it would appear that there is no impediment for the defendant using the mark 'H & R Johnson' or 'Johnson' overseas which would be in conflict or in competition with similar marks or names which the plaintiffs enjoyed in the other countries, be it common law or registered trade marks. There are two instances of where tiles of such marks or names were exported to France and Australia during the currency of the TAA with the agreement of the plaintiffs. It was contended by the plaintiffs that it was the intention of the parties that the definition of Johnson trade marks include 'H & R Johnson' or 'Johnson' marks.

If the plaintiffs are right in their contention, what then is the effect of the termination of the TAA on the defendant's rights to use the marks 'H & R Johnson' or 'Johnson' thereafter? It would seem that the defendant will have to cease the use of such names or marks if they are distinctive of the plaintiffs' tiles or manufacture. Wadlow at p 109 states:

> ... from *Bostitch* and *Manus*, it appears that once a business becomes identified with a foreign principal, the goodwill continues to accrue to the foreign business rather than the local one for as long as the latter is held out as representing the former, even *if the balance of control shifts to the local business*. (Emphasis added.)

It would seem clear that even if the defendant has complete control of the management and the quality of its tiles (which would appear to be the case), it does not mean that the plaintiffs no longer have the goodwill so long as the defendant is held out as representing the former. It matters not even if the public is not aware of such change.

In *Aktiebolaget Manus v RJ Fullwood & Bland* (1949) 66 RPC 71, a case where the Swedish plaintiffs had acquired a reputation in milking machines in England under the name Manus, the machines were imported by the defendants. A licence agreement was entered into under which the machines were manufactured by the defendants. Evershed LJ held:

> ... it is to my mind plain that the defendants were at pains in their advertising literature of the period (including particularly the diaries which they caused to be printed for the years 1941 and 1942) themselves to emphasise the

> business identity of the machines then being made and marketed by them with the earlier 'Manus' machines. This was indeed the main object of, and (as I read it) the defendants' duty under the agreement. The defendants were claiming for the goods of their own manufacture the benefit of the reputation which the plaintiffs' name had already acquired; and as between the defendant's and the plaintiffs' they can in my view be no doubt from the terms of the agreement itself that the name was treated as and was in fact the plaintiffs' property.

The case *Bostitch Trade Mark* [1963] RPC 183, though a case relating to registered trade marks, may be of guidance to this case. This is because the validity of registered trade marks depends on whether they had become deceptive. This issue in turn depends on whether the mark was distinctive of the proprietor which in turn was equivalent to the question of who owned the goodwill in the business in which the mark was used.

In this case, 'Cristal' is but one of the numerous types of tiles produced by the plaintiffs just as much as the defendant's use of the local names of the tiles, produced by it. However, it cannot be denied from the evidence adduced that the various types of the tiles are pegged to the name 'H & R Johnson' or 'Johnson', that is, associating or representing as those of the plaintiffs. This was allowed during the period of the TAA. It can therefore be implied that it was the intention of the parties for the licence to include the name of 'H & R Johnson' or 'Johnson' as coming within the meaning of the definition 'Johnson trade marks' in the TAA. It is not a matter of pure and simple use of the name 'H & R Johnson' as a corporate name but more of representing the name in relation to the tiles. This is supported by the evidence of PW8 regarding the reason for choosing the plaintiffs (at least, the second plaintiff) as a partner in the JVA. PW8 stated:

> Companies like H & R Johnson need not hawk their name around, they were not out here begging for people to take their name. As long as the tiles were manufactured with their technology, we can use their name. There was a clear understanding that we do not own the H & R Johnson or Johnson names, it was lent to us. You can say that there is some element of a gentleman's agreement to it. Both parties talked about it and there was a clear understanding on the matter. You do not dispute or deny what was clearly understood.

At Answer 42, PW8 said:

> It was a whole package, the name, the logo and technical support.

It seems clear to me that it is not so much of the name of the defendant that is really seriously in dispute for use as a corporate name per se after the termination of the TAA but more of associating the tiles as representing those of the plaintiffs by the use of such corporate name.

The defendant at most could possibly get away if the name itself only is used as a corporate name but not if it is related to the goods which is the case here based on the evidence adduced (see *JH Coles Proprietary Ltd (in liquidation) v Need* (1933) 49 CLR 499, [1934] AC 82 (PC)).

The contention of the defendant that by selling off the shares in the defendant, the plaintiffs allegedly abandoned their rights, cannot be true.

A Neither can it be accepted that by the fact that the shares were sold at a premium, 'goodwill' was taken into account. In the first place in the agreement for sale of the shares, the defendant was not a party to it. It would perhaps be in order for the use of the name 'H & R Johnson' as a company's name, so long as the products are not associated as representing those of the plaintiffs. The onus placed on the defendant in this regard B would be a difficult one and in my view the defendant failed to do so. The best solution, in my view, would be for the defendant to change the corporate name and thereafter the marketing of its tiles would no longer be in dispute, that is, associating them with that of the plaintiffs' tiles.

In the circumstances, the continued use of the name 'H & R Johnson' C or 'Johnson' on its tiles after the termination of the TAA would constitute a breach of the TAA so long as the defendant held out as representing or being associated with the plaintiffs' goodwill in respect of those tiles. It matters not that the balance of control shifts to the defendant or that it has become totally Malaysianised so to say.

D I will accordingly enter judgment in favour of the plaintiffs in respect of prayers (1), (2), (4) and (10). Prayer (3) would be academic as prospectus referred to had already been utilised for the purpose of the public listing of the defendant.

Taking the cue from Dato Kandan's written submission on the issue E of set-off, counsels may like to address the court in respect of prayers (6), (7), (8) and (9) vis-a-vis para 25A of the statement of defence before I make the orders in respect of those prayers.

Plaintiffs' claim allowed.

F Reported by Loo Lai Mee

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